

1 **Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS**
2 **AND POSITION WITH THE PUBLIC SERVICE COMMISSION OF SOUTH**
3 **CAROLINA?**

4 A. My name is Sharon G. Scott. My business address is 101
5 Executive Center Drive, Columbia, South Carolina. I am
6 employed by the Public Service Commission of South
7 Carolina as an Auditor IV.

8 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR**
9 **EXPERIENCE?**

10 A. I received a Bachelor of Science Degree in Business
11 Administration, with a major in Accounting from the
12 University of South Carolina in May 1983 and a MBA
13 Degree from Webster University in May 2000. I was
14 employed by this Commission in July 1983, and have
15 participated in cases involving gas, electric,
16 telephone, and water and wastewater utilities. I have
17 21 years of auditing experience with the Commission.

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING SOUTH**
19 **CAROLINA ELECTRIC AND GAS COMPANY?**

20 A. The purpose of my testimony is to set forth in summary
21 form Staff's findings and recommendations resulting from
22 our examination concerning this docket. These findings

1 and recommendations are set forth in the report of the
2 Audit Department with attached exhibits.

3 Q. I SHOW YOU THIS REPORT WITH ITS ATTACHED EXHIBITS,
4 ENTITLED "REPORT OF THE AUDIT DEPARTMENT, THE PUBLIC
5 SERVICE COMMISSION OF SOUTH CAROLINA, DOCKET NO. 2004-
6 178-E, SOUTH CAROLINA ELECTRIC AND GAS COMPANY", DID YOU
7 AND THE AUDIT STAFF PREPARE THIS DOCUMENT?

8 A. Yes, the report was prepared by other members of the
9 Audit Department Staff and me.

10 Q. (MARK FOR IDENTIFICATION). WOULD YOU PLEASE SUMMARIZE
11 THE CONTENTS OF THIS REPORT?

12 A. As outlined in the report's index, pages 1 through 5
13 contain the Staff's analysis of the report, with the
14 remaining pages 6 through 29 containing the Audit
15 Staff's supporting exhibits. The major part of my
16 testimony will refer to Audit Exhibit A, entitled
17 Operating Experience, Rate Base and Rates of Return.
18 Such Exhibit, as do most other Audit Staff exhibits,
19 utilizes a test year ending March 31, 2004.

20 Q. DO YOU HAVE ANY FURTHER EXPLANATION OF EXHIBIT A?

21 A. Yes, I do. The Staff prepared the exhibit in compliance
22 with the Commission's standard procedures as to

1 calculating income and rate base for electric utilities.

2 A brief description of Exhibit A is as follows:

3 Column (1): Presents the Company's total electric
4 operations per the Company's filing as of the end of the
5 test period under review. Special emphasis is placed on
6 net operating income for return, rate base and rate of
7 return on rate base.

8 Column (2): Presents total electric accounting and pro
9 forma adjustments per the Staff for the period under
10 review.

11 Column (3): This column details the total electric
12 operations of the Company as adjusted by the Staff prior
13 to the effect of the proposed increase.

14 Column (4): This column presents the Company's retail
15 electric operations per the Company's cost of service
16 study used in the Company's filing for the test year
17 under review, March 31, 2004.

18 Column (5): The Staff's retail accounting and pro forma
19 adjustments are detailed in this column. Such
20 adjustments were made by the Staff in order to show both
21 a normalized and going forward level of the Company's
22 per book retail operations during the test year. These

1 adjustments are described in Staff's Audit Exhibit A-1
2 of the Staff's report.

3 Column (6): The Staff's computation of the Company's
4 retail normalized test year after giving effect for the
5 accounting and pro forma adjustments is detailed in this
6 column.

7 Column (7): This column presents the proposed increase
8 in retail rates and charges as computed by the
9 Commission's Utilities Department Staff and the
10 resulting adjustments to expenses.

11 Column (8): This column presents the Company's
12 normalized test year retail operations after including
13 the proposed increase.

14 **Q. WOULD YOU PLEASE ELABORATE ON THE CALCULATIONS IN**
15 **EXHIBIT A?**

16 A. As shown in column (1), using total electric operations
17 per the Company's filing, the Staff computed net
18 operating income for return of \$327,221,000. The Staff
19 computed a rate base of \$4,014,886,000 for the Company's
20 total electric operations. The Staff computed the rate
21 of return on rate base to be 8.15% on total electric
22 operations.

23 Shown in Column (2) are the accounting and pro forma

1 adjustments proposed by the Staff on a total electric
2 basis.

3 Column (3) presents the Company's as adjusted total
4 electric operations. The Staff computed net operating
5 income for return of \$287,787,000. The Staff computed
6 the adjusted total electric rate base to be
7 \$3,788,632,000. The Staff computed the as adjusted rate
8 of return on such rate base to be 7.60%.

9 In Column (4) the Audit Staff computed the Company's
10 total retail operations based on the cost of service
11 study recommended by the Staff's Utilities Department.
12 Net operating income for return was computed to be
13 \$319,628,000 on a retail basis and retail rate base was
14 computed to be \$3,831,455,000. The Staff computed the
15 return on retail rate base to be 8.34% prior to making
16 accounting and pro forma adjustments.

17 Column (5) presents the Staff's accounting and pro forma
18 adjustments on a retail basis. Such accounting and pro
19 forma adjustments are described in Staff's Audit Exhibit
20 A-1.

21 Column (6) presents the Company's retail operations as
22 adjusted by the Staff. The Staff calculated net
23 operating income for return of \$282,344,000 on an as

1 adjusted retail basis. The as adjusted retail rate base
2 was computed to be \$3,618,246,000. The Staff computed
3 the as adjusted rate of return on retail rate base to be
4 7.80%.

5 Column (7) presents the Staff's computation of the
6 Company's net proposed increase of \$81,192,000. The
7 increase consists of \$92,114,000 for the proposed
8 increase and an adjustment to reduce the proposed
9 increase by \$10,922,000 for fixed capacity charges that
10 the Company will incur for gas service to the Jasper
11 facility.

12 Column (8) presents the Company's retail operations as
13 adjusted to normalize the test year and on a pro forma
14 basis after the effect of the proposed increase in
15 retail rates. The Staff computed retail net operating
16 income for return of \$339,710,000 and a retail rate base
17 of \$3,618,246,000. The Staff computed a rate of return
18 on retail rate base of 9.39% after the effect of the
19 proposed increase.

20 **Q. WOULD YOU PLEASE BRIEFLY DESCRIBE THE OTHER ACCOUNTING**
21 **EXHIBITS IN THE STAFF'S REPORT?**

22 **A.** Audit Exhibit A-1 details the total electric company and
23 the retail electric accounting and pro forma adjustments

1 made by the Staff and/or the Company. Company and Staff
2 adjustments are compared in this exhibit with a brief
3 description of each adjustment.

4 Audit Exhibit A-2 details the Staff's computation of the
5 Company's customer growth. The Staff performed the
6 growth calculations using the formula method as detailed
7 in Exhibit A-2. The Staff used end of period customers
8 as of May 31, 2004 in the computation because the
9 Company made accounting and pro forma adjustments beyond
10 the end of the test year.

11 Audit Exhibit A-3 details the Staff's computation of
12 total working capital using the formula method. The
13 Staff considers the formula method to be appropriate for
14 use in this case. The Staff's formula uses a forty-five
15 day cash working capital allowance. The 45 days is
16 typical of an electric utility's billing and collection
17 cycle. The formula approach provides a reasonable and
18 unbiased estimate of the Company's cash working capital
19 requirements. Also, the formula approach is justified
20 in this case because it is simple to use and less costly
21 than a lead lag study.

1 Audit Exhibit A-4 provides a schedule of deferred debits
2 and credits that are included as a component of rate
3 base.

4 Audit Exhibit A-5 provides a calculation of the
5 Company's return on common equity on a retail basis
6 before and after the effect of the proposed increase.

7 The rate base, as shown on Exhibit A, is allocated among
8 the various classes of debt and equity, excluding short-

9 term debt, according to their respective ratios as
10 computed using the Company's total capital structure as

11 of August 31, 2004. The amount of retail as adjusted net
12 income for return needed to cover embedded cost rates on

13 long-term debt of 6.56% was computed by Staff to be
14 \$111,463,000. The amount of as adjusted retail income

15 for return needed to cover embedded cost rates on
16 preferred stock of 6.40% was computed by the Staff to be

17 \$6,322,000. The as adjusted retail rate of return on
18 common equity was computed by the Staff to be 9.04%. The

19 as adjusted overall rate of return was computed to be
20 7.80%. Such overall return equals the rate of return on

21 rate base shown on Staff's Exhibit A. After the proposed
22 retail increase, the return on common equity was

23 computed to be 12.19%. The overall rate of return was

1 computed to be 9.39% after the effects of the proposed
2 increase. Such overall return equals the rate of return
3 shown on Staff's Exhibit A after the proposed retail
4 rate increase.

5 Audit Exhibit A-6 gives a reconciliation of the
6 differences between the Company's filing and the Staff's
7 presentation of financial data leading to net operating
8 income for return.

9 Audit Exhibit A-7 gives a reconciliation of the rate
10 base contained in the Company's application to the rate
11 base computed by the Staff on Exhibit A.

12 Audit Exhibit A-8 provides a listing of real estate
13 transactions for the year ended December 31, 2003.

14 Audit Exhibit A-9 presents the Company's condensed
15 consolidated income statement for the test year ended
16 March 31, 2004.

17 Audit Exhibit A-10 presents the Company's condensed
18 consolidated balance sheet as of the test year ended
19 March 31, 2004.

20 **Q. WOULD YOU PLEASE EXPLAIN THE ACCOUNTING AND PRO FORMA**
21 **ADJUSTMENTS IN AUDIT EXHIBIT A-1?**

22 A. Yes, the adjustments marked with an (A) are the
23 responsibility of the Audit Department and the ones

1 marked with a (U) are the responsibility of the
2 Utilities Department. The adjustments that contain both
3 an (A) and a (U) denote partial responsibility of both
4 departments. My testimony will address those adjustments
5 designated as (A) that differ from the Company's
6 adjustments. The Audit Staff computed each adjustment on
7 a total company basis and the Utilities Department Staff
8 provided the retail amount for use in Audit Exhibit A-1.

9 Adjustment Number 1 - The Staff noticed that the
10 Company's proposal included increasing total electric
11 gross revenue by \$30,099,357 to annualize North Carolina
12 Municipal Electric Membership Corporation (NCEMC)
13 contracts. The Utilities Department reviewed the revenue
14 adjustment. The Audit Staff is proposing to increase
15 other taxes by \$144,808 on a total electric company
16 basis to include the gross receipts taxes applicable to
17 such revenue. The Staff's Utilities Department computed
18 the electric retail amount of the adjustment to other
19 taxes to be \$139,000.

20 Adjustment Number 2 - The Staff agreed with the Company
21 that an adjustment should be made to amortize over three
22 years the fuel component of purchased power that has not
23 been recovered through the fuel adjustment clause. The

1 Staff is proposing to allocate the total amount of the
2 adjustment to the Company's retail operations. The
3 adjustment is made in accordance with the stipulation
4 approved by the Commission in Docket No. 2004-02-E.

5 Adjustment Number 5 - The Utilities Department witness,
6 Mr. Randy Watts, will address the Staff's adjustment to
7 annualize turbine maintenance costs.

8 Adjustment Number 6- The Company and Staff propose to
9 increase operating and maintenance expenses for the
10 costs associated with the use of ammonia in three new
11 Selective Catalytic Reactor Units. The ozone season for
12 the first year was from May 31, 2003 to September 30,
13 2003. Thereafter, the ozone season will be from May 1
14 to September 30. The Staff annualized actual ammonia
15 expenses for this year's 4-month ozone season over 5
16 months to reflect the length of the future ozone season.
17 Staff's adjustment totaled \$1,152,549 on a total
18 electric basis. The Utilities Department computed the
19 retail electric amount to be \$1,080,000.

20 Adjustment Number 7 - The Staff agreed with the Company
21 on the basic wage and employee benefits increase of
22 \$6,511,153 on a total electric company basis. The
23 Staff's adjustment to other taxes removed payroll taxes

1 that had been computed on amounts above the FICA base.

2 The Staff's computation of other taxes amounted to
3 \$421,822 on a total electric company basis. The Staff's
4 Utilities Department determined the allocation to retail
5 electric operations to be an increase to other taxes of
6 \$405,000.

7 Adjustment Number 9 - The Company estimated an increase
8 to the expense for Post Employment Benefits Other Than
9 Pensions based on information obtained from their
10 actuaries. The Staff requested that the Company obtain
11 an updated actuarial study to support its adjustment.
12 The Company's actuary supplied an updated actuarial
13 study conducted as of January 1, 2004 that supported an
14 amount higher than the Company's adjustment. The Staff
15 used the amount from the actuarial study in arriving at
16 an adjustment to increase Operating and Maintenance
17 (O&M) expenses by \$1,507,881 on a total electric company
18 basis. The Staff computed the reduction to rate base to
19 be \$931,117 on a total electric basis. The Staff's
20 Utilities Department supplied a retail electric
21 adjustment to O&M expenses of \$1,438,000 and a retail
22 electric adjustment to rate base of (\$894,000).

1 Adjustment Number 11 - In adjustment number 11, the
2 Company proposed to amortize deferred costs associated
3 with its long term disability plan over a five year
4 period. Financial Accounting Standards Board (FASB)
5 statement number 112 requires that a liability be
6 recognized for the deferred expenses associated with
7 this cost. The Company booked a liability of \$8,280,470
8 on a total electric basis for such deferred expenses.
9 The Company proposed to amortize the liability over a
10 five year period by recognizing a total electric expense
11 of \$1,656,094 in the test year. The Staff traced the
12 amount of the liability to the Company's books and
13 records during the audit. The Staff proposes to amortize
14 the liability over nine (9) years which represents the
15 average amount of time a participant in the Long Term
16 Disability plan would receive benefits. Therefore, the
17 Staff proposes to increase O&M expenses by \$920,052 on a
18 total electric basis for the test year. The Utilities
19 Department computed the retail electric amount to be
20 \$877,000.

21 Adjustment Number 13 - The Staff agreed with the Company
22 that the adjustment to lower rate base and expenses
23 associated with employee clubs needed to be made.

1 However, The Staff found two projects in completed
2 construction work not classified that were for employee
3 clubs. Staff lowered plant in service by an additional
4 \$690,557 on a total electric company basis to remove
5 such projects from rate base. The Staff removed a total
6 of \$3,809,000 on a total Company basis. The Staff's
7 Utilities Department provided the additional retail
8 electric amount of \$663,211. The Staff removed a total
9 of \$3,658,000 on a retail electric basis.

10 Adjustment Number 15 - The Company proposed an
11 adjustment to increase total electric plant in service
12 by \$75,281,937 to reflect the May 31, 2004 balance. The
13 Staff agreed with the concept of the adjustment because
14 the Staff considered it to be a known and measurable
15 change. Both the Staff and the Company are proposing to
16 update Construction Work in Progress (CWIP) to reflect
17 balances at May 31, 2004. The Staff recommends that the
18 Company not be allowed to continue to accrue an
19 allowance for funds used during construction (AFUDC) on
20 CWIP projects at the level that is included in rate base
21 as a result of this adjustment. It is necessary to cease
22 the accrual of AFUDC because the Company will now be

1 earning a return on the level of CWIP that is included
2 in rate base.

3 Adjustment Number 16 - The Company estimated the rate
4 base and expense levels that it believes will be
5 incurred in order to comply with new North American
6 Electric Reliability (NERC) standards. The Audit Staff
7 could not verify the adjustment because it was based on
8 estimated amounts. The Staff verified actual costs to
9 date consisting of \$12,156 on a total electric basis in
10 the construction work in progress (CWIP) account. The
11 Staff proposes to include that amount in rate base. The
12 Utilities Department provided the retail electric amount
13 of \$11,666.

14 Adjustment Number 17 - The Staff and the Company both
15 propose to annualize depreciation expense and adjust the
16 depreciation reserve based on plant in service at May
17 31, 2004 and currently approved depreciation rates.
18 However, Staff removed plant for Employees Clubs and
19 excluded plant for NERC standards before computing
20 annualized depreciation expense. The Utilities
21 Department reviewed the depreciation rates that the
22 Company proposed to use in this adjustment. The Staff
23 computed a depreciation expense adjustment of

1 \$7,437,535. The Utilities Department provided the
2 retail electric amount of \$7,116,000.

3 Adjustment Number 18 - The Staff and the Company both
4 propose to increase depreciation expense and
5 depreciation reserves for a new depreciation study based
6 on plant in service at May 31, 2004. However, Staff
7 removed plant for Employees Clubs and excluded plant for
8 NERC standards before computing annualized depreciation
9 expense using the rates from the new study. The
10 Utilities Department reviewed the new depreciation rates
11 that the Company proposed to use in this adjustment.
12 The Staff's Depreciation Expense adjustment for the new
13 Depreciation study amounted to \$12,222,912. The
14 Utilities Department provided the retail electric amount
15 of \$11,420,000.

16 Adjustment Number 19 - The Company proposes to increase
17 property taxes by \$5,501,000 on a total company basis
18 using plant additions. The proposed retail amount
19 increased property taxes by \$5,280,000. The Staff
20 annualized property taxes based on as adjusted net plant
21 in service which did not include plant for Employee
22 Clubs and NERC standards. The property taxes for the
23 Jasper plant were computed in a separate adjustment. The

1 Staff increased property tax expense by \$5,444,576 on a
2 total company basis. The Utilities Department provided
3 the retail electric amount of \$5,226,000.

4 Adjustment Number 20 - The Staff and Company propose to
5 adjust for the effects of the Jasper plant starting
6 operations in May 2004. The Staff annualized Other
7 Operating and Maintenance expenses and Taxes Other Than
8 Income based on actual expenses from May 2004 through
9 September 2004. Staff annualized total actual expenses
10 for a total company adjustment of \$4,336,549 for Other
11 Operating Expenses and added \$158,216 for Taxes Other
12 Than Income. The retail amount was computed by the
13 Utilities Department to be \$4,090,000 for Other
14 Operating Expenses and \$5,126,000 for Taxes Other Than
15 Income. The Staff has no differences with the Company
16 for Fuel Costs, Plant in Service, CWIP, Depreciation and
17 Accumulated Depreciation. However, the Staff recommends
18 that the Company not be allowed to continue to accrue an
19 allowance for funds used during construction (AFUDC) on
20 the Jasper amounts and any other CWIP projects at the
21 level included in rate base as a result of this
22 proceeding. It is necessary to cease the accrual of

1 AFUDC because the Company will now be earning a return
2 on the CWIP that is included in rate base.

3 Adjustment Number 22 - The Company originally proposed
4 an increase of \$23,349,940 to Materials and Supplies
5 Inventory to increase the value of coal inventory to
6 reflect current market prices and normal inventory
7 levels. The Company made a correction after the filing,
8 proposing an increase of \$13,256,666. The Staff agrees
9 with the proposed increase to Materials and Supplies
10 Inventory of \$13,256,666. The Utilities Department
11 provided the retail electric amount of \$12,339,000.

12 Adjustment Number 23 - The Company is proposing to
13 amortize its total project costs in the GridSouth
14 Regional Transmission Organization (RTO) over a five-
15 year period. The Staff examined \$14,118,142 in costs
16 associated with the Company's investment in the
17 GridSouth RTO as of March 2004. The Company's costs
18 include company labor, the pensions, benefits and taxes
19 associated with such labor, outside services, travel,
20 meals, interest, etc. The Company has also paid amounts
21 to Duke Electric Transmission to true up funding for the
22 RTO. The Staff proposes to amortize the total amount
23 invested by the Company in the RTO over a five-year

1 period. The Staff recommends excluding interest expense
2 from the bills that the Staff examined. Interest expense
3 amounted to \$527,511 on a total company basis. The
4 Staff's adjustment amortizes \$13,590,631 (\$14,118,142
5 minus \$527,511) over five years for an increase to O&M
6 expense of \$2,718,126 on a total electric basis. The
7 Company proposed to include the average unamortized
8 investment balance in the RTO in rate base. The Staff
9 does not propose to include the unamortized balance in
10 Rate Base resulting in a sharing of the GridSouth RTO
11 costs between the ratepayer and stockholders. The
12 Utilities Department computed the retail electric
13 adjustment to be \$2,546,000.

14 Adjustment Number 24 - This adjustment was made to keep
15 the cash working capital formula of one-eighth of O&M
16 expenses on a pure per books basis by recognizing
17 corrections to the books. The one-eighth formula gives
18 the Company 45 days of cash working capital. The 45 days
19 is typical of an electric utility's billing and
20 collection cycle. The formula approach provides a
21 reasonable and unbiased estimate of the Company's cash
22 working capital requirements. Also, the formula approach
23 is justified in this case because it is simple to use

1 and less costly than a lead lag study. The Staff's
2 adjustment decreases total company working capital by
3 \$1,098,000 on a total Company basis. The Utilities
4 Department provided the decrease to the retail electric
5 amount of \$1,038,000.

6 Adjustment Number 25 - The Staff made an adjustment to
7 income taxes for interest synchronization. The Staff
8 limited its interest deduction for income tax purposes
9 to the amount associated with long-term debt based on
10 the rate base, capital structure and embedded cost rates
11 contained on Staff's Exhibit A-5. The adjustment will
12 vary with changes in rate base, capital structure,
13 and/or embedded cost of long-term debt rates. The
14 Staff's adjustment increases income tax expense by
15 \$2,317,000 on a total company basis. The Utilities
16 Department provided the retail electric amount of
17 \$2,218,000.

18 Adjustment Number 26 - The Staff is proposing to
19 eliminate O&M expenses considered to be non-allowable
20 for ratemaking purposes. Such expenses include
21 institutional and goodwill advertising, civic club dues,
22 donations, service awards, employee newsletters, one-
23 half of Chamber of Commerce dues and expenses,

1 sponsorships, and other miscellaneous items that the
2 Staff does not consider to be necessary for ratemaking
3 purposes. The Staff's adjustment lowers O&M expenses by
4 \$503,406 on a total company basis. The retail amount was
5 computed by the Utilities Department to be \$487,000.

6 Adjustment Number 27 - The Staff is proposing to
7 annualize interest on customer deposits. The Staff used
8 the customer deposits balance of \$19,881,605 (retail
9 electric portion) times the Commission-approved interest
10 rate of 3.50%, effective January 1, 2004, to arrive at
11 an annualized interest amount of \$695,856. The per books
12 balance of \$1,303,130 (retail electric portion) was
13 subtracted from the computed amount to arrive at Staff's
14 adjustment of (\$607,274). The Staff decreased interest
15 on customer deposits in cost of service and increased
16 customer deposits by \$607,274 in rate base.

17 Adjustment Number 28 - The Staff is proposing to reduce
18 rate base for the accrued interest on customer deposits
19 of \$1,582,143 which is cost-free capital to the Company.
20 The above adjustment to increase rate base by \$607,274
21 is the offset to this adjustment which results in
22 reducing accrued interest to reflect the Commission-
23 approved interest rate of 3.5%.

1 Adjustment Number 29 - The Staff is proposing to remove
2 unclaimed funds from rate base in the amount of \$4,123
3 on a total company basis. Unclaimed funds represent
4 amounts owed to customers, unclaimed pay checks,
5 unclaimed deposits, etc. The Staff recommends that such
6 funds be treated as a form of cost free capital to the
7 utility.

8 Adjustment Number 30 - The Staff proposes to remove the
9 cash working capital component associated with Genco
10 fuel from rate base. The Staff found that the bill from
11 Genco to the Company for purchased power contains a cash
12 working capital component. The Staff lowered the cash
13 component of total working capital by \$7,683,000 on a
14 total company basis. The Utilities Department provided
15 the retail electric amount of \$7,265,000.

16 Adjustment Number 31 - The Staff is proposing to adjust
17 test year moving expenses to reflect a 5-year average
18 amount. Staff averaged moving expenses from 1999 to
19 2003 for a 5-year average amount of \$179,712. Staff
20 subtracted this amount from the test year amount of
21 \$443,855 for an adjustment of \$264,143 on a total
22 Company basis. The Utilities Department provided the
23 retail electric amount of \$253,000.

1 Adjustment Number 32 - The Staff proposes to remove
2 Officer's bonuses and salary increases from test year
3 expenses. Staff removed bonuses of \$6,549,083 and salary
4 increases of \$221,547 for a total Company amount of
5 \$6,770,630. Staff removed \$10,970 for FICA taxes. The
6 Utilities Department provided the retail electric amount
7 of \$6,503,000 for bonuses and salary increases and
8 11,000 for FICA Taxes. There are a few reasons for
9 removing officer pay increases and officer incentive
10 compensation payments for ratemaking purposes. (1) The
11 Commission has ruled in several past cases that these
12 payments should not be allowed for ratemaking purposes.
13 (2) Officer incentive compensation payments are possibly
14 non-recurring items depending on whether or not certain
15 goals are met by the Company and/or the recipient. (3)
16 The adjustment prevents utilities from providing
17 officers with large wage increases or incentive
18 compensation payments to help justify rate relief or
19 prevent rate reductions. (4) The adjustment promotes a
20 sharing of test year salaries and wages between the
21 ratepayer and the shareholder. In this particular case,
22 officer pay increases totaled \$221,547 and officer
23 incentive compensation payments totaled \$6,549,083 on a

1 total electric company basis for the test period. Total
2 per Company officer incentive compensation payments
3 averaged \$1,045,458 per year over the past five calendar
4 years. The electric portion was not available. The
5 Company did not pay out officer incentive compensation
6 payments in the year 2002 which demonstrates the
7 possibility of them being non-recurring items. In Docket
8 No. 92-619-E, Order No. 93-465, dated June 7, 1993, the
9 Commission disallowed both officer pay increases and
10 officer incentive compensation plan payments. In Docket
11 No. 95-1000-E, Order No. 96-15, the Staff removed
12 officer pay increases and officer incentive compensation
13 payments from cost of service. However, in that docket,
14 the Commission approved both the officer pay increases
15 and officer incentive payments for inclusion in cost of
16 service because they were considered to be a part of a
17 total "reasonable compensation package." In Docket No.
18 2002-223-E, Order No. 2003-38, the Company's previous
19 case requesting rate relief for its electric operations,
20 officer's salary increases and officer's incentive
21 compensation payments were not addressed. The
22 Commission Staff did not propose an adjustment in that

1 case because total officer compensation, including
2 incentive payments, decreased over the previous year.

3 Adjustment Number 33 - The Staff proposes to remove
4 accrued litigation expenses that are not known and
5 measurable of \$1,023,675. The Utilities Department
6 provided the retail electric amount of \$983,000.

7 Adjustment Number 34 - The Staff is proposing an
8 adjustment to remove legal fees of \$87,884 associated
9 with the over-billing of Franchise Fees for certain
10 company customers. The over-billing was a Company
11 error. The Utilities Department provided the retail
12 electric amount of \$85,000.

13 Adjustment Number 35 - The Staff is proposing an
14 adjustment to correct the per book income taxes for an
15 error made in the filing. Total Taxes per books were
16 \$106,083,571 less the per filing income tax amount of
17 \$101,707,000 for an adjustment of \$4,376,571. The
18 Utilities Department provided the retail electric amount
19 of \$4,193,000.

20 **Q. MS. SCOTT, HAVE YOU REVIEWED THE TESTIMONY OF MR. LABROS**
21 **E. PILALIS CONCERNING THE RETURN ON COMMON EQUITY?**

22 **A. Yes, I have.**

1 Q. BASED ON A 9.88% RETURN ON COMMON EQUITY IN MR.
2 PILALIS'S TESTIMONY, WHAT IS THE OVERALL RATE OF RETURN?

3 A. The overall Rate of Return is 8.22%.

4 Q. MS. SCOTT, DOES THIS CONCLUDE YOUR TESTIMONY?

5 A. Yes, it does.